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4 May 2019

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MPRA Paper No. 93860, posted 14 May 2019 11:33 UTC

**Bankruptcy and Corporate Governance: The impact of firm specific factors
and macroeconomic**

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Abstract

The aim of this study is to identify the cause of scandals that faced by Malaysia Airlines Berhad (MAS) in year 2001. One of the causes of this scandals is about corporate scandals. A corporate scandal means that it is involves alleged or actual unethical behavior by people acting within or on behalf of a corporation. Many recent corporate collapses and scandals have involved false or inappropriate accounting of some sort. Besides that, this study was carried out using the secondary data which was obtained from annual report for five years that is from years 1999 until year 2003. Return on asset (ROA) has been as the dependent variable to study its relationship with the independent variables such as Return on equity (ROE), Unemployment rate, Exchange rate, corporate governance index, Tobin Q and Altman Z. The enter method was used to obtain the correlation and regression result to observe significance level of the risk with the profits. And the Altman Z data is used to identify the probability of bankruptcy in this five years because of the scandals that face by MAS. Based on the result attained, the regression result show that the company of MAS might facing the bankruptcy problem in year 2000 until 2002 where the financial performance is low. While the loan of the company is higher. This causes can refers to data of ROA, ROE and Altman Z where the data of Altman Z show that in year 2002 is lower.

Keywords: Corporate Governance Index, ROA, ROE, Altman Z, Tobin Q, Unemployment rate, Exchange rate.

1.0 Introduction

In this report, I will discuss the topic about the scandal that faced by Malaysia Airlines Berhad in year 2001. This chapter details is discussing the background of the Malaysia Airlines Berhad and the scandals that faced in years 2001.

1.1 Background of Malaysia Airlines Berhad

Malaysia Airlines Berhad is the airlines company in Malaysia and this company also know as MAS in short form. MAS is established in year 1947. And in this year, the company name is know as Malayan Airways, but its change their name to Malaysian Airlines System in 1 October 1972. This company is the flag carrier which is own by government of Malaysia and the headquarter is situated at Sultan Abdul Aziz Shah Airport in Subang, Selangor. MAS operates flights at its first base in Kuala Lumpur International Airport and secondary base in Kota Kinabalu. Besides that, MAS Berhad is the holding company for Malaysia's national airlines carrier and it is one of the fastest growing airlines in Asia. Malaysia Airlines also have two airline subsidiaries that is MASwings and Firefly. MASwings is the scheduled flights that focuses on inter-Borneo flights. While the Firefly is the scheduled flights that operates from two places that is Penang International Airport and Subang International Airport. This airlines only focuses on tertiary cities. From small air services, Malaysian airlines have grown into award-winning airlines with more than 1000 aircraft, servicing more than 110 destinations on six continents.

The operation that prepared by MAS for easier their customers in purchasing ticket and reservation is they prepared the online booking and buying in their home page at MAS Website. And this website also have services for booking the hotel and transportation at the destination you want to go. With this online purchasing, the customers need to fulfill their details like the destination they want to go and the departure place they want. Besides that, MAS also offer the offline booking system that is the passengers can buying the ticket at counter Airport. Besides that, MAS also have using the MASKargo to delivery the product and services for their passengers.

1.2 Scandals that faced in years 2001

The scandals that faced by MAS in years 2001 is about financial scandals that happens because of the action by Tajuddin Ramli in year 1994. In year 1994, the businessman Tajuddin Ramli or its know as Chairman of MAS in year 1994 until year 2001 have taking a loan from a government-linked company to buy a controlling stake in Malaysian Airlines share price much higher than the market price that is RM 8 per share. For seven years, he heads the MAS, and this is the period of various allegations of fraud. The company has a cash reserve of RM600 million when Tajuddin took over, but a cumulative loss of RM9.4 billion when he left the company in 2001. Despite the big losses, the government still bought back from MAS Holdings for the same price it was sold at RM8 per share because the government is desperate to ensure that the airline survives. This is because the government has allowed the construction of the Kuala Lumpur International Airport (KLIA).

Besides that, Tajuddin also involved in legal proceedings with government-linked companies (GLCs) who claimed to have failed to pay loans and also lost to Danaharta's case and ordered to pay more than RM500 million, the company and Tajuddin out of court settlement, which called "bailout" by critics. After this cases, the MAS has experienced financial problems since then. This action of Tajuddin Ramli in year 1994 almost cause the company of MAS Berhad to be facing the bankruptcy problem. And this study aims to investigate the impact of corporate governance index in relation to bankruptcy, macroeconomics towards company performances.

So, based on this problem we know that the management of MAS have facing the business ethnics where the chairman didn't have ethnics in business.

2.0 Literature Review

In this literature review, the objectives from this studies are observe from article. In this research, we will talk about the five article that related to corporate governance and scandals, bankruptcy or Altman Z, performance, Tobin Q, and macroeconomic. According to Anup Agrawal and Sahiba Chadha, this paper empirically examines whether certain corporate governance mechanisms are related to the probability of a company restating its earnings. The failure of widespread in financial reporting largely has been blamed for weak internal controls. This failure is one of the causes that led to the scandal in which the company Chairman made a deception in business. In this article, we know that the relation between certain corporate governance mechanisms and the likelihood of a company having a serious accounting problem will effect the result in the income statement. The specific corporate governance issues that we analyze are board and audit committee independence, the use of independent directors with financial expertise on the board or audit committee, conflicts of interest faced by outside auditors providing consulting services to the company, membership of independent directors with large blockholdings on the board or audit committee, and the influence of the chief executive officer (CEO) on the board. And the primary purpose of the board's audit committee is to oversee the financial reporting process of a firm. The committee oversees a company's audit process and internal accounting controls. But, the audit committees of corporate boards are typically not very active. They usually meet just a few (two or three) times a year. Therefore, even if the committee is comprised of independent directors, it may be hard for a small group of outsiders to detect fraud or accounting irregularities in a large, complex corporation in such a short time. Similarly, even though a typical board meets more frequently (usually about six to eight times a year) than the audit committee, it has a variety of other issues on its agenda besides overseeing the financial reporting of the firm. The board is responsible for issues such as the hiring, compensation, and firing of the CEO and overseeing the firm's overall business strategy, including its activity in the market for corporate control. So it is possible that even a well-functioning, competent, and independent board may fail to detect accounting problems in large firms (Chadha, 2005).

According to Surapol Pongsatat, Judy Ramage, and Howard Lawrence, the bankruptcy for a company is a final declaration of its inability to sustain current operations given its current

debt obligations. Practically all firms must have some debt load to expand operations or just to survive. Good economic planning often requires a firm to finance some of its operations with debt. The degree to which a firm has debt in excess of assets or is unable to pay its debt as it comes due are the two most common factors in bankruptcy. It is because business failure is a major concern to the parties involved and can create high costs and heavy losses, its prediction is highly beneficial. If bankruptcy could be predicted with reasonable accuracy ahead of time, firms could better protect their businesses and could take action to minimize risk and loss of business and perhaps even prevent the bankruptcy itself. However, the bankruptcy situation of a firm is comprised of various reasons that is environmental factors such as global competition, changing customer preferences, new legal requirements and changing social norms. This reason will exert tremendous pressure on a firm and can force it into bankruptcy (Lawrence, 2004).

Besides that, according to Sanjai Bhagat and Brian Bolton, the relationship between corporate governance and firm performance is important to help the firm to find out their percentage of stock return where this item maybe will effect the performance of firm. There are three alternative ways of interpreting the superior return performance of companies with strong shareholder right. The first alternative to interpret the firm performance is the result that could be sample-period specific where the firm may not have exhibited superior return performance. And the second is the risk adjustment might not have been done properly; in other words, the governance factor might be correlated with some unobservable risk factor(s). And the last one is the relation between corporate governance and performance might be endogenous raising doubts about the causality explanation. There is a significant body of theoretical and empirical literature in accounting and finance that considers the relations among corporate governance, management turnover, corporate performance, corporate capital structure, and corporate ownership structure. Hence, from an econometric viewpoint, to study the relationship between any two of these variables one would need to formulate a system of simultaneous equations that specifies the relationships among these variables (Bolton, 2007).

Meanwhile according to Chong. E. B, Qiao. L, Joe. L, Frank M. Song, and Junxi Zhang, the Tobin's Q values are determined by the corporate governance practices of these firms while

controlling for a number of variables that are typically used in the studies of market valuations of firms. Since, the Tobin's Q is a measure widely that use to measurer the valuation of listed company (Zhang, 2003).

The relationship between the corporate governance and the macroeconomic performance is a fairly recent one. In this article, they have identify about the effects of corporate governance quality on macroeconomic crises, especially in the context of South-East Asian economies. And the macroeconomic can help the country to calculated the GDP for each years (Ararat, 2003).

3.0 Methodology

3.1 Introduction

Research methodology is the process that used to collect data and information for the purpose of making business decision. Based on this research, this can help us to conduct a series of activities like describes the data in business, explaining and predicting phenomena. Besides that, the purpose of this research is to understanding the operational risk in business and its determinants in airlines industry in Malaysia. The method that we use to collect and analysis data is IBM Statistical Package for the Social Sciences (SPSS) Statistics version 25.

3.2 Sampling Technique

Based on this research, we are using the annual report of Malaysia Airlines Berhad for 5 years that is starting from year 1999 until year 2003 where the financial scandals that face is in year 2001. So, the reason we use this five years annual report is to determine the relationship between dependent variables (operational risk) and independent variables (firm specific factors and macroeconomic factors).

3.3 Statistical Technique

This study focus on the financial scandals that face by Malaysia Airlines Bhd in years 2001. The data we used to conduct this research are extracted from annual reports of MAS Bhd in five year that is years 1999 until 2003. Income statement and balance sheet in the annual report which contain the financial information is used to evaluate the financial performance of company by computing financial ratios such as return on assets (ROA), return on equity (ROE), Tobin's Q, and Altman Z. In addition, the macroeconomic data of Gross Domestic Product (GDP) and unemployment rate, and exchange rate are also collected to analysis the economic condition from year 1999 to 2003. The main technique that used to complete this research is Ordinary Least-Square (OLS) regression or more commonly known as linear regression. A researcher use the Least-Squares method to seek for a line of best fit that explains the potential relationship between an independent variable and a dependent variable (Investopedia, 2018). OLS chooses the parameters of a linear function of a set of explanatory variables by minimizing the sum of the squares of the differences between the observed dependent variable in the given dataset and those

predicted by the linear function. The relationships are modelled using linear predictor functions whose unknown model parameters are estimated from the data. Therefore, OLS is easier and more sensible to be used for estimating regression as compared to other alternative techniques.

3.4 Data Analysis

In this research, one dependent variable (operational risk) and two categories of independent variables (internal and external factors) are used. The research framework is shown as below:

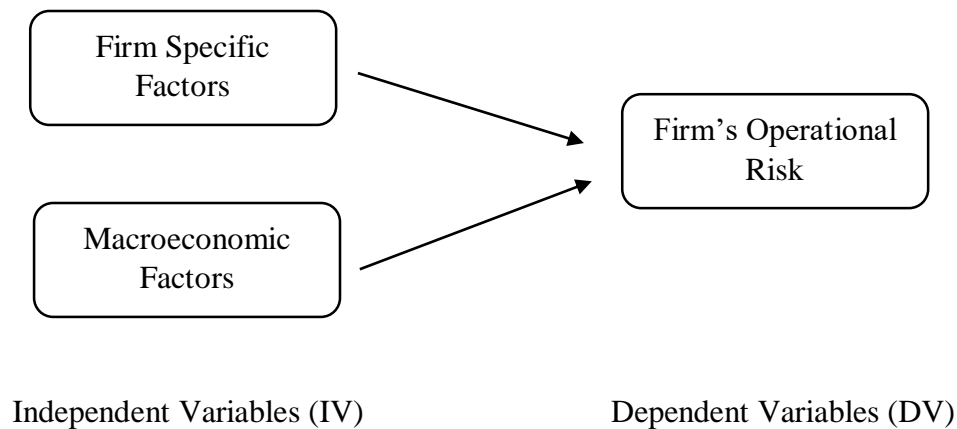


Figure 3.1 Research Framework

Regression analysis (OLS) was conducted to find out the relationship between dependent variable and independent variables. In general, regression analysis helps to explain how value of dependent variable changes when the independent variables are varied. To determine the influence of independent variables on the dependent variable in this study, multiple regression analysis method was used. The OLS multiple regression models can be presented in the form of equation as follows:

$$\text{OPR} = \beta_0 + \beta_1\text{ROA} + \beta_2\text{ROE} + \beta_3\text{TQ} + e \dots \dots \dots \text{Equation 1 (Model 1)}$$

$$\text{OPR} = \beta_0 + \beta_1\text{GDP} + \beta_2\text{UER} + \beta_3\text{ER} + e \dots \dots \dots \text{Equation 2 (Model 2)}$$

$$\text{OPR} = \beta_0 + \beta_1\text{ROA} + \beta_2\text{ROE} + \beta_3\text{TQ} + \beta_4\text{GDP} + \beta_5\text{UER} + \beta_6\text{ER} + e \dots \dots \dots \text{Equation 3 (Model 3)}$$

No.	Variables	Notation	Measurement
1.	Return on Assets	ROA	Profit / Total Assets
2.	Return on Equity	ROE	Net income / Shareholder's equity
3.	Tobin's Q	TQ	Total market value of firm / Total asset of firm
4.	Gross Domestic Products	GDP	5-years gross domestic products
5.	Unemployment rate	UER	5- years unemployment rate
6.	Exchange rate	ER	5-years exchange rate

Table 3.1 Measurement of Variables

3.5 IBM Statistical Package for Social Sciences (SPSS Statistics)

In order to complete this research, IBM SPSS Statistics version 25 was used to compute data from the annual reports to acquire the result. Statistical Package for the Social Sciences or SPSS were developed by Norman H. Nie, C. Hadlai (Tex) Hull and Dale H. Bent at University of Standford. SPSS was officially named as IBM SPSS Statistics in current version (2015) after being acquired by IBM. SPSS is the most widely used programs for statistical analysis in social science or research due to its multi-function such as statistics analysis, data management and data documentation features which helps in better decision making. For this research, IBM SPSS Statistics were used to compute descriptive statistics, linear regression, correlation and coefficient between independent variables and dependent variable based on quantitative data extracted from annual reports and official websites.

4.0 Analysis and Finding

4.1 Introduction

Researchers carry out financial statement analysis process to review and evaluate the financial data and performances extracted from the annual report of the companies. In this research, the financial problem that faced by MAS are measured by its corresponding financial ratios and compared across five years period that is from years 1999 until 2003.

4.2 Profitability

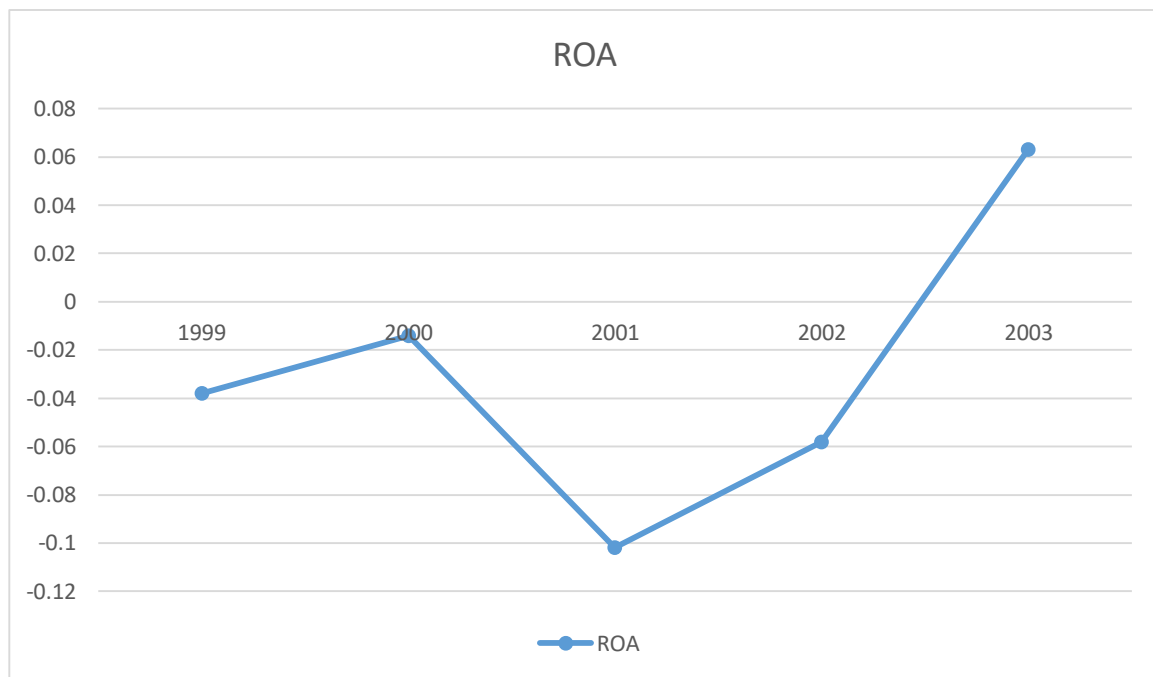


Figure 4.1 ROA of MAS Bhd

Figure 4.1 show that the return on assets (ROA) of MAS in this five year is unstable and lower where the ROA in year 1999 until 2001 is negative. But in year 2003, the ROA increase until 0.0630. However, the lower one of ROA in this five years is in year 2001 where this year is the financial scandals year of MAS Bhd. This show that the financial problem that face by MAS in this year is very bad until the company may face the bankruptcy.

4.3 Profitability

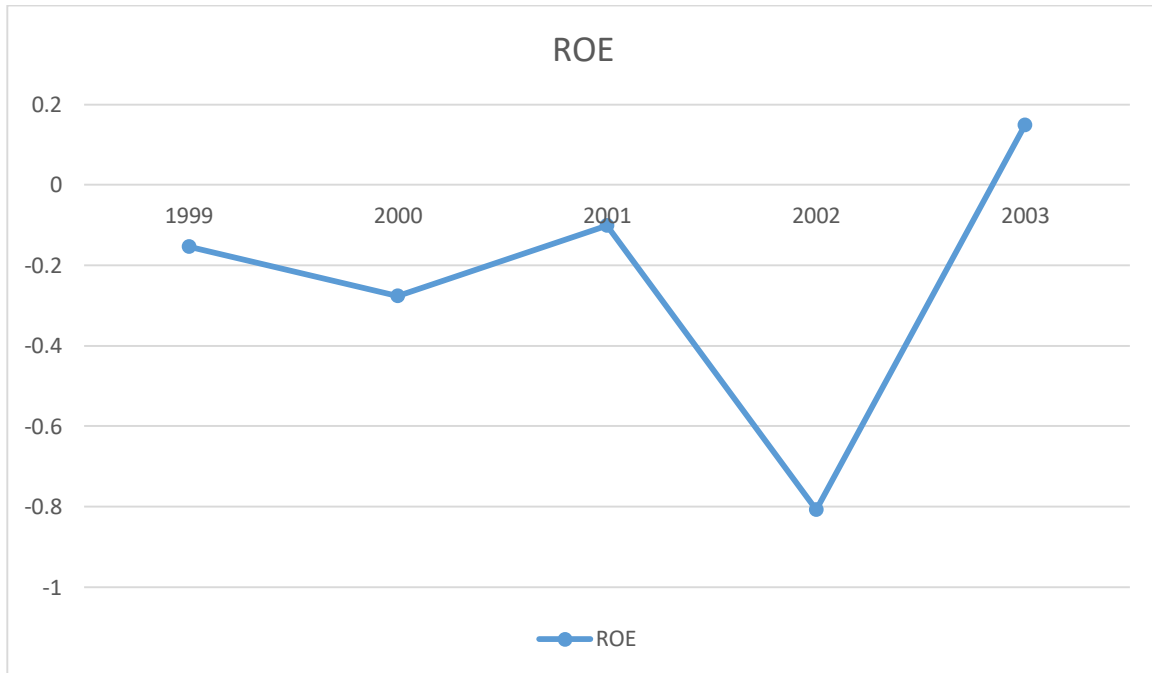


Figure 4.2 ROE of MAS Bhd

Based on figure 4.2 show that the lower ROE in this five year is in year 2002 where the data is -0.058. And the higher one is in year 2003 that is increase from negative data until positive data as much as 0.0630. While the data for year 1999 until 2002 is negative where the net income for this four year is lower. This situation cause by a financial scandal that took place in year 2001.

4.4 Tobin's Q

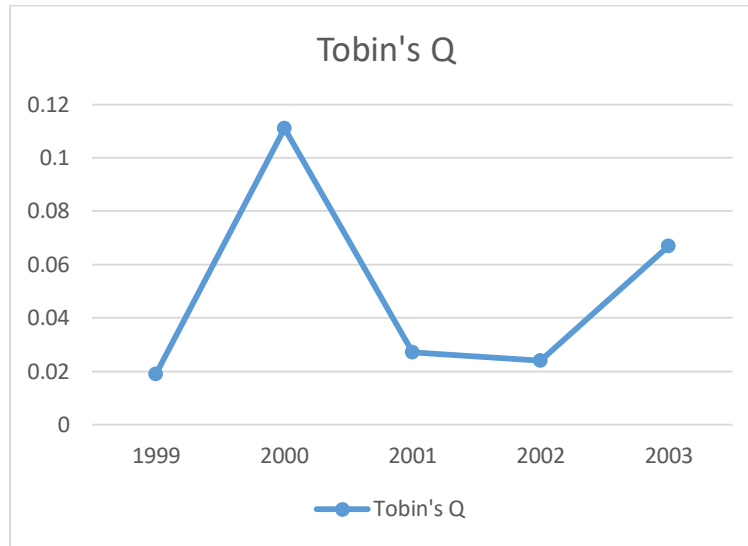


Figure 4.3 Tobin's Q of MAS Bhd

Figure 4.3 show that the higher Tobin's Q in this five years is in year 2000 that is 0.1107. While, the lower one is in year 1999 that is as much as 0.0187. And the data for year 2001 and 2002 almost the same.

4.5 Altman Z-score

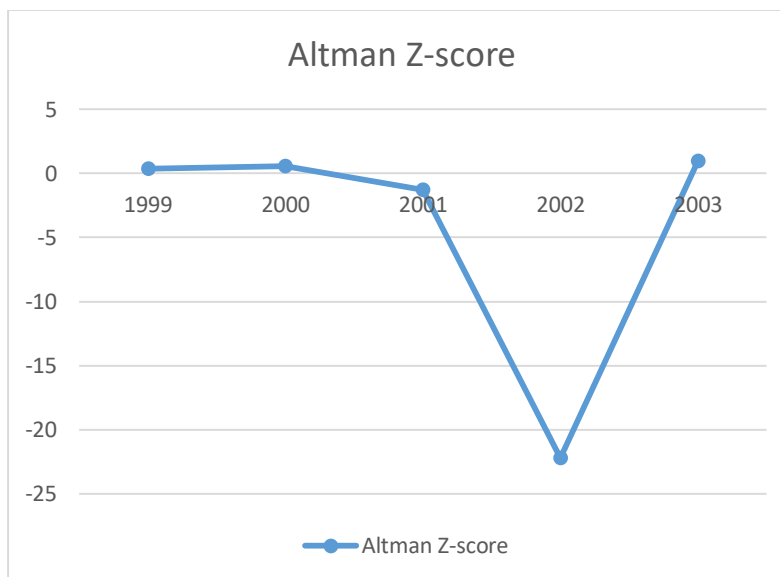


Figure 4.4 Altman Z-score

Based on figure 4.4 show that the lower one in this five year is in year 2002 where the data is -22.1983. This data show that in this year, MAS Berhad had facing the bankruptcy problem compare with another years. While, the higher data is in year 2003 where the data is positive that is as much as 0.9658. The analysis of data Altman Z-score is to help us to identify the probability of bankruptcy in business.

4.6 Macroeconomic Factors

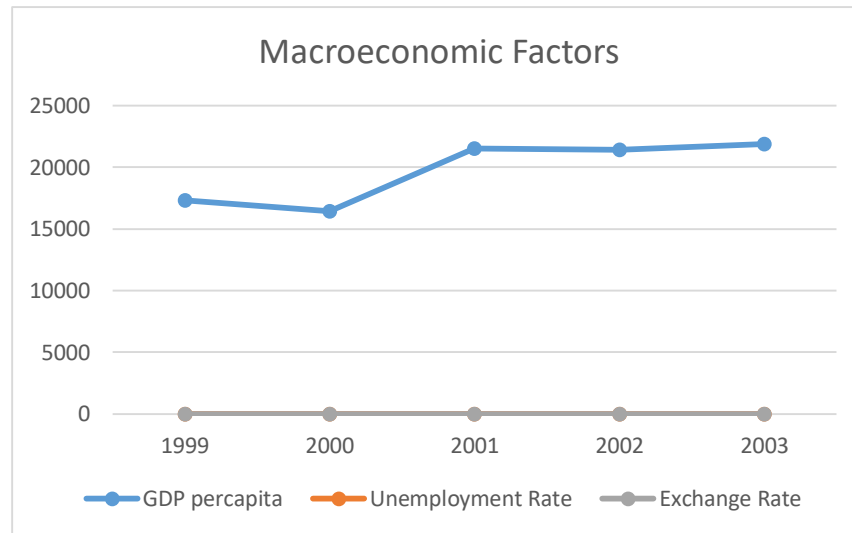


Figure 4.5 Macroeconomic Factors in MAS Bhd

GDP is measuring the total value of final goods and services produced within a given country's borders. In every company in Malaysia must have the data of GDP to make sure that the value of final goods and services that produced is enough and can't to effect the income of country. Based on figure 4.5 show that the higher GDP in this five years for MAS Bhd is in year 2003 where the GDP is as much as 21,916 USD. While the lower GDP is in year 2000 that is only 17,313 USD.

Unemployment rate is lagging indicator which is determine the rises or falls in the wake of changing economic conditions. In business, the data of unemployment is important where the data can show that the employees of one economy is enough or not. If the data of unemployment increase, it is means the production and services of firm's is decrease. So, based on figure 4.5 show that the higher unemployment rate in MAS Bhd is in year 1999 that is 8.1. While the lower rate is in year 2003 that is as much as 4.9.

An exchange rate is the value of one nation's currency versus the currency of another nation or economic zone. Based on figure 4.5 show that the higher exchange rate in this five year is 1999 that is as much as 0.8005. While the lower exchange rate is in year 2003 that is 0.7243.

4.7 Descriptive Statistics

Descriptive Statistics			
	Mean	Std. Deviation	N
AltmanZ	-4.3238	10.02800	5
CorporateGovernance	.6100	.00000	5
ROA	-.0299	.06120	5
ROE	-.3978	.44626	5
Tobin	.0493	.03927	5
GDPpercapitaUSD	19722.4000	2628.88823	5
UnemploymentRate	6.3800	1.35904	5
ExchangeRate	.7683	.03883	5

Figure 4.1 Descriptive Statistics for MAS Bhd

Descriptive statistics is a numbers that we use to summarize and describes the data. The word of “data” refers to the information that has been collected from an experiment, a surveys, a historical records, and others. So, the data we collected for this research is about the historical records of MAS Bhd in years 1999 until 2003. This data can help us to identify the financial problem that face by MAS in this five years.

Based on figure 4.1 show that the mean data of Altman Z, ROA and ROE for MAS Bhd is negative. It is means that MAS Bhd is facing losses in their business for this five years where the ROA is negative 0.0299 for the data of mean in descriptive statistics. So, the lower profit of company will effect the ROE where the net income and the equity of shareholders will be affected by this issues. And the data of Altman Z show that the MAS have the serious problem in financial because the data of mean is negative that is -4.3238.

So, the descriptive that should be based on 3 model of MAS Bhd is data of ROA, ROE and Altman Z for dependent variable. However, the data of GDP, Unemployment Rate, and Exchange rate is for independent variable. It is because the data of ROA, ROE, and Altman Z will effect the profit of company.

4.8 Correlation

Correlations									
		AltmanZ	CorporateGovernance	ROA	ROE	Tobin	GDPpercapitaUSD	UnemploymentRate	ExchangeRate
Pearson Correlation	AltmanZ	1.000	.	.333	.581	.400	-.387	.439	.552
	CorporateGovernance	.	1.000
	ROA	.333	.	1.000	.905	.540	-.011	-.276	-.445
	ROE	.581	.	.905	1.000	.446	-.299	.111	-.092
	Tobin	.400	.	.540	.446	1.000	-.424	.075	.117
	GDPpercapitaUSD	-.387	.	-.011	-.299	-.424	1.000	-.905	-.755
	UnemploymentRate	.439	.	-.276	.111	.075	-.905	1.000	.911
	ExchangeRate	.552	.	-.445	-.092	.117	-.755	.911	1.000

Figure 4.7 Correlation

Pearson correlation is used to determine the relationship between dependent variable (operational risk) and independent variables (firm-specific variables and macro-economic variables). The table 4.8 above is used as benchmark to determine the relationship between the dependent variables and independent variables.

The most significant correlations for 3 model in MAS Bhd Altman Z because this data is the data that can help us to identify the probability of bankruptcy for MAS Bhd in this five years. While, not significant correlations for 3 model in MAS is corporate governance because this data will not effect the profit of company.

5.0 Conclusion

5.1 Introduction

This study aims to determine the firms' operational risk and its determinants from year 1999 until 2003 for MAS Bhd. To achieve this objective, three firm-specific factors (Tobin's Q, Altman Z and profitability) and three macro-economic factors (gross domestic product, unemployment rate, and exchange rate) were investigated in this study. This chapter will discuss about the findings in previous chapter, conclusion and recommendations for future work.

5.2 Discussion of Result

The study aims to determine the firms' operational risk and its determinants from year 1999 until 2003 for MAS Bhd. The research is done to achieve the objectives of this study:

1. To investigate the firm-specific factors towards operational risk cause by the scandals of company.
2. To investigate the macro-economic factors towards operational risk from year 1999 until 2003.
3. To investigate the firm-specific factors and macro-economic factors towards operational risk from year 1999 until 2003.

5.3 Limitations

This study is limited in five year where the scandals that face by MAS Bhd. It is limited to five years of corporate governance that listed in Bursa Malaysia. This study also covers only five years financial statements from year 1999 until 2003 for MAS Bhd. Thus, only limited amount of information can be collected and analyze due to the time constraint.

5.4 Recommendation

Based on the findings, Altman Z show a significant relationship with the financial that face by MAS Bhd. Altman Z shows the loss of firm for this five year will cause the firm to face the bankruptcy. Hence, it is important for a firm to manage the financial problem where the firm must reduce the cost of company. It is because the lower cost of company can help the company to save the money.

Besides that, profitability also shows a significant relationship with the financial problem. Profitability for this five year shows that the firm get the losses in their business

starting year 1999. Hence, it is important for a firm to increase the profit of firm where the firm can do the promotion for their ticket flight to increase their sales.

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Appendices

A. Financial Data

Variable	Years				
	1999	2000	2001	2002	2003
ROA	-0.0381	-0.0140	-0.1022	-0.0582	0.0630
ROE	-0.1527	-0.2756	-0.9027	-0.8071	0.1491
Tobin's Q	0.0187	0.1107	0.0265	0.0240	0.0665
Altman Z	0.3414	0.5415	-1.2696	-22.1983	0.9658
GDP	17,313	16,427	21,518	21,438	21,916
Unemployment Rate	8.1	7.4	6.2	5.3	4.9
Exchange Rate	0.8005	0.7994	0.7894	0.7277	0.7243

Table 1.0 Financial Data

B. SPSS Output for Model 1 (Firm-Specific Independent Variables)

1. Descriptive Statistics

Descriptive Statistics			
	Mean	Std. Deviation	N
AltmanZ	-4.3238	10.02800	5
CorporateGovernance	.6100	.00000	5
ROA	-.0299	.06120	5
ROE	-.3978	.44626	5
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GDPpercapitaUSD	19722.4000	2628.88823	5
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2. Pearson Correlation Table

		Correlations							
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	ExchangeRate	.552	.	-.445	-.092	.117	-.755	.911	1.000
Sig. (1-tailed)	AltmanZ	.	.000	.292	.152	.252	.260	.230	.167
	CorporateGovernance	.000	.	.000	.000	.000	.000	.000	.000
	ROA	.292	.000	.	.017	.174	.493	.327	.227
	ROE	.152	.000	.017	.	.226	.313	.429	.442
	Tobin	.252	.000	.174	.226	.	.238	.453	.426
	GDPpercapitaUSD	.260	.000	.493	.313	.238	.	.017	.070
	UnemploymentRate	.230	.000	.327	.429	.453	.017	.	.016
	ExchangeRate	.167	.000	.227	.442	.426	.070	.016	.
N	AltmanZ	5	5	5	5	5	5	5	5
	CorporateGovernance	5	5	5	5	5	5	5	5
	ROA	5	5	5	5	5	5	5	5
	ROE	5	5	5	5	5	5	5	5
	Tobin	5	5	5	5	5	5	5	5
	GDPpercapitaUSD	5	5	5	5	5	5	5	5
	UnemploymentRate	5	5	5	5	5	5	5	5
	ExchangeRate	5	5	5	5	5	5	5	5

C. SPSS Output for Model 2 (Macro-economic Independent Variables)

1. Descriptive Statistics

Descriptive Statistics			
	Mean	Std. Deviation	N
AltmanZ	-4.3238	10.02800	5
CorporateGovernance	.6100	.00000	5
ROA	-.0299	.06120	5
ROE	-.3978	.44626	5
Tobin	.0493	.03927	5
GDPpercapitaUSD	19722.4000	2628.88823	5
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Pearson Correlation	AltmanZ	1.000	.	.333	.581	.400	-.387	.439	.552
	CorporateGovernance	.	1.000
	ROA	.333	.	1.000	.905	.540	-.011	-.276	-.445
	ROE	.581	.	.905	1.000	.446	-.299	.111	-.092
	Tobin	.400	.	.540	.446	1.000	-.424	.075	.117
	GDPpercapitaUSD	-.387	.	-.011	-.299	-.424	1.000	-.905	-.755
	UnemploymentRate	.439	.	-.276	.111	.075	-.905	1.000	.911
	ExchangeRate	.552	.	-.445	-.092	.117	-.755	.911	1.000
Sig. (1-tailed)	AltmanZ	.	.000	.292	.152	.252	.260	.230	.167
	CorporateGovernance	.000	.	.000	.000	.000	.000	.000	.000
	ROA	.292	.000	.	.017	.174	.493	.327	.227
	ROE	.152	.000	.017	.	.226	.313	.429	.442
	Tobin	.252	.000	.174	.226	.	.238	.453	.426
	GDPpercapitaUSD	.260	.000	.493	.313	.238	.	.017	.070
	UnemploymentRate	.230	.000	.327	.429	.453	.017	.	.016
	ExchangeRate	.167	.000	.227	.442	.426	.070	.016	.
N	AltmanZ	5	5	5	5	5	5	5	5
	CorporateGovernance	5	5	5	5	5	5	5	5
	ROA	5	5	5	5	5	5	5	5
	ROE	5	5	5	5	5	5	5	5
	Tobin	5	5	5	5	5	5	5	5
	GDPpercapitaUSD	5	5	5	5	5	5	5	5
	UnemploymentRate	5	5	5	5	5	5	5	5
	ExchangeRate	5	5	5	5	5	5	5	5